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ORIGIN EB-07

INFO OCT-01 AF-08 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 EUR-12 /091 R

DRAFTED BY EB/IFD/OMA: B G CROWE:JML

APPROVED BY EB/IFD/OMA: C C CUNDIFF

TREASURY: S LOCKWOOD

EXIM: LENTZ

AF: MARKS

----- 024263

R 151608Z JUL 76

FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA

C O N F I D E N T I A L STATE 175215

E.O. 11652: GDS

TAGS: EFIN, CG

SUBJECT: ZAIRE'S DEBT RESCHEDULING

REFERENCE: KINSHASA 5500

1. THE FOLLOWING SUMMARIZES THE SITUATION SURROUNDING THE
JUNE 15-16 PARIS CLUB MEETING ON ZAIRE DEBT RESCHEDULING:

(A) USG OBJECTIVES AT THE JUNE 15-16 PARIS CLUB MEETING ON
ZAIRE DEBT RESCHEDULING WERE TO MAKE PROGRESS IN DEFINING
THE MAGNITUDE OF ZAIRE'S DEBT PROBLEM AND TO IMPRESS UPON
THE GOZ THE CREDITORS' STRONG CONCERN WITH GOZ ECONOMIC
PERFORMANCE. WHILE WE HOPED TO NARROW DOWN SOME OF THE
SPECIFICS OF THE RESCHEDULING -- AND THUS ESTABLISH FURTHER
MOMENTUM TO BRING THE EXERCISE TOWARD A SUCCESSFUL CONCLU-
SION -- WE DID NOT ENVISION ANY FINAL AGREEMENT AT THE JUNE
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SESSION. WE BELIEVED FACT THAT ZAIRE'S ECONOMIC POSITION

IS CONSIDERABLY WORSE THAN PROJECTED BY THE IMF AT THE TIME OF THE STAND-BY ARRANGEMENT WAS FURTHER REASON TO DELAY AGREEMENT UNTIL SITUATION -- AND ZAIRE'S PROGRESS IN IMPLEMENTING ITS STABILIZATION PROGRAM -- COULD BE MORE ACCURATELY ASSESSED.

(B) THE FRENCH CHAIRMAN OF THE MEETING WAS, HOWEVER, DETERMINED -- WITH THE ACQUIESCENCE OF THE OTHER CREDITORS -- TO SECURE A FINAL ACCORD. (IT WOULD APPEAR THAT FRENCH HAD MADE A PRIOR COMMITMENT TO GOZ TO ARRANGE AN AGREEMENT AT THIS MEETING). AS A RESULT, US DELEGATION FOUND ITSELF ISOLATED IN OUR EXPRESSIONS OF CONCERN REGARDING THE MAGNITUDE OF THE PROBLEM AND THE RELEVANT PERFORMANCE STANDARDS THAT WERE TO BE APPLIED. FRENCH MADE IT CLEAR THAT THEY WOULD PRESS ON FOR AN AGREEMENT EVEN IN THE ABSENCE OF USG PARTICIPATION.

(C) AS A RESULT, AN AD REFERENDUM AGREEMENT WAS REACHED WHICH WILL RESCHEDULE A SIGNIFICANT PORTION OF THE DEBT FALLING DUE THROUGH 1976. US DELEGATION HAD NO INSTRUCTIONS WHICH WOULD AUTHORIZE THEIR ACCEPTANCE OF RESCHEDULING INTEREST FALLING DUE IN THE FIRST HALF OF 1976 SINCE THE GOZ HAD IN ITS MARCH 23 COMMUNICATION TO THE AMBASSADORS OF CREDITOR COUNTRIES NOTED THAT IT "WISHED TO ASSUME RESPONSIBILITY FOR ALL INTEREST FALLING DUE IN 1976." MOREOVER, WE BELIEVED THAT CONTINUED PAYMENT OF INTEREST IS AN IMPORTANT FACTOR IN THE GOZ'S ABILITY TO RETAIN CREDITWORTHINESS WITH PRIVATE BANKS.

(D) USG RECOGNIZES FULLY THAT HEAVY DEBT REPAYMENTS AND FOREIGN EXCHANGE SHORTAGES MAY AFFECT ZAIRE IN 1977. NEVERTHELESS, WE BELIEVE IT PRUDENT TO CONFINE THE CURRENT RESCHEDULING EXERCISE TO 1976 DEBT (AND 1975 ARREARAGES). WE BELIEVED IT PREMATURE TO ATTEMPT TO GET A FIRM GRASP OF ZAIRE'S 1977 SERVICING CAPACITY AT THIS TIME. MOREOVER, WE BELIEVED A "SHORT-LEASH" APPROACH WOULD ENCOURAGE ZAIRE TO IMPLEMENT ITS STABILIZATION COMMITMENTS. WE ALSO BELIEVED THAT THE UNCERTAINTY WHICH SURROUNDS PROSPECTS FOR THE MARKET PRICE OF COPPER MAKES POST-1976 DEBT ASSESSMENT IMPRACTICABLE.

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(E) PARAGRAPH 6 OF THE AD REFERENDUM AGREEMENT NOTES THAT RESCHEDULING WOULD NOT BE APPLIED TO 1977 UNTIL A FALL MEETING OF THE CREDITORS MEETS TO ASSESS ZAIRE'S ECONOMIC PROSPECTS AND PERFORMANCE PROGRESS. IN SIGNING AD REFERENDUM, USG NOTED "THAT WITH RESPECT TO 1977, THE US UNDERSTANDS THAT PARAGRAPH 6 OF THIS DOCUMENT AND OTHER RELEVANT PARAGRAPHS ALLOW CREDITOR COUNTRIES THE DISCRETION TO EX-

AMINE THE APPROPRIATENESS AND CONDITIONS OF RESCHEDULING 1977 MATURITIES AT THE OCCASION OF THE MEETING REFERRED TO IN PARAGRAPH 6." ALTHOUGH NO OTHER COUNTRY MADE A SIMILAR STATEMENT, THE US "UNDERSTANDING" WAS IN EFFECT ACCEPTED BY THE CLUB.

(F) STATE 138919 EXPRESSES THE IMPORTANCE WE ATTACH TO GOZ IMPLEMENTATION OF EQUITABLE AND CONSISTENT POLICY TOWARDS PRIVATE CREDITORS. WE WERE THUS PLEASED THAT

AD REFERENDUM AGREEMENT INCLUDED GOZ COMMITMENT TO "SECURE WITH PRIVATE CREDITORS, AND PARTICULARLY BANKS OF THE COUNTRIES CONCERNED, RESCHEDULING ARRANGEMENTS ON LINES COMPARABLE TO THOSE LAID DOWN IN THIS MINUTE WHICH, IN THE CASE OF EACH CATEGORY OF CREDITORS, WOULD NOT PRODUCE ANY DISCRIMINATION BETWEEN THEM." IT WILL NOW BE UP TO THE GOZ TO NEGOTIATE DIRECTLY WITH THE BANKS ON THIS ASPECT OF THE AGREEMENT.

2. WHILE THE RESCHEDULING IS AN ESSENTIAL ELEMENT IN ZAIRE'S RECOVERY, SERIOUS FINANCING PROBLEMS REMAIN. WE HAVE DOUBTS, FOR EXAMPLE, WHETHER ZAIRE HAS THE CAPACITY TO FULFILL HER 1976 COMMITMENTS TO BOTH GOVERNMENT AND PRIVATE CREDITORS. IT ALSO SEEMS THAT ADDITIONAL SOURCES OF FINANCING -- ACCOMPANIED BY STRICT GOZ ADHERENCE TO THEIR ECONOMIC PERFORMANCE COMMITMENTS -- WILL STILL BE REQUIRED IF THE ECONOMY IS TO BE REVIVED.

3. ASSUMING THE GOZ CONTINUES FULFILLING HER COMMITMENTS TO ECONOMIC REFORM, A BILATERAL US-GOZ AGREEMENT IMPLEMENTING THE PARIS CLUB ACCORD SHOULD BE READY FOR SIGNING BY EARLY FALL. (WE ARE CURRENTLY REVIEWING THE "TIMING" ASPECTS OF SUCH A SIGNING.) ONCE WE HAVE PREPARED
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CLEARED-DRAFT TEXT OF SUCH A BILATERAL AGREEMENT, WE WILL FORWARD A COPY FOR YOU TO SUBMIT TO THE GOZ TO SEEK THEIR CONCURRENCE. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT DEBTS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE175215
Document Source: CORE
Document Unique ID: 00
Drafter: B G CROWE:JML
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760273-0616
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760754/aaaabvmh.tel
Line Count: 157
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 KINSHASA 5500
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2004 by CunninFX>; APPROVED <17 AUG 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ZAIRE'S DEBT RESCHEDULING
TAGS: EFIN, CG
To: KINSHASA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006